UPDATE OF THE BUDGET AND ECONOMIC OUTLOOK

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WEDNESDAY, SEPTEMBER 8, 2004

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to notice, at 2:10 p.m., in room 210, Cannon House Office Building, Hon. Jim Nussle (chairman of the committee) presiding.

Members present: Representatives Nussle, Gutknecht, Hastings, Portman, Garrett, Diaz-Balart, Moran, Moore, Neal, Edwards, Scott, Capps, Thompson, Baird, and Emanuel.

Chairman NUSSLE. Good afternoon. Welcome back everyone. This morning we heard from the Federal Reserve Chairman Greenspan on the economic outlook and current fiscal issues. This afternoon we will follow up that discussion with a review of the Congressional Budget Office. Yesterday the update of the budget and economic outlook was released. Our witness today, back again, is the Congressional Budget Office Director, Douglas Holtz-Eakin.

Dr. Holtz-Eakin, we appreciate you being back with us today and for the good information that you provided us with yesterday.

So what does the report tell us? That is the bottom line. First it tells us, from my read, that our near-term budget situation has improved significantly over the past 6 months, and that the improvement is due primarily to a sharp increase in the amount of revenues that are coming in, brought on by strong economic. Parenthetically let me say, as I read it, that the Congressional Budget Office projection for economic activity was dead on. From previous analysis and projections, you hit that on the nose as I understand it, and again, we appreciate the good information and analysis that has been provided.

As we heard from Chairman Greenspan this morning, we now know without question that the investments that we made in the economy are beginning to pay off. Our policies are working. The economy has shown strong growth, recently growing at its fastest pace in about 20 years, growing at 4.7 percent over the past year. We have seen 1.7 million new payroll jobs over the past year, and then the unemployment rate falling to 5.4 percent from the 6.3 percent in August of last year. The private Blue Chip forecasters expect strong growth to continue, and real GDP growth of about 4 percent over the second half of this year.

Both Chairman Greenspan and the Congressional Budget Office expect this pattern of steady economic growth to continue. As the chairman said this morning, the economy has now finally show signs of traction.

As I mentioned a moment ago, associated with the growing economy we have seen the Federal Government's revenue increase over the past 6 months even with the acceleration of tax cuts, so taxes were reduced, but more money was coming into the Federal Treasury. As the chairman said this morning earlier, they don't always pay for themselves, but in this instance we have seen that even by reducing taxes more revenues come into the Federal Treasury.

Now, all that said, we still have large deficits in the near term. I am not trying to sugar coat that at all, $422 billion in fiscal year 2004. That is a big number, but those numbers have to be put in some context. You can't just throw a number out there, as was unfortunately done yesterday in many of the news reports of this, "largest deficits," "record deficits." Compared to what? Compared to what, just the number? That is a big number, I agree. I am not satisfied. None of us are satisfied. We've got to have a plan to deal with it. You can't just say you are not satisfied, but you have to be able to compare it against something, to show that it is $422 billion for fiscal year 2004, and $348 billion in fiscal year 2005, according to CBO. That is $56 billion less than was projected just 6 months ago. It is far from where we want to be, but heading $56 billion to the plus is the right direction, and certainly much more in the right direction than anyone was projecting just 6 months ago.

Even though our near-term deficit picture has improved, we still need to keep an extra tight grip on our spending, and that brings us to an important point. CBO, as is required by law, must assume the continuation of current law in its projections. Thus, its revenue baseline beyond 2004 includes the expiration of a whole range of tax relief provisions including the increase in the marriage penalty, reducing the child tax credit, resurrecting the death tax, increasing taxes on capital gains and stock dividends, increasing taxes on small businesses, and increasing taxes for every American who currently pays income taxes. It also assumes $115 billion in one-time emergency spending this year which will continue indefinitely. That adds up to $1.4 trillion in just 10 years. Clearly, these assumptions, again as required by law, fairly and by convention, are not necessarily going to happen.

Let me just show you a chart that we have here that shows the CBO baseline. Using CBO numbers, if you back out the tax increase they assume and back out the continuation of emergency spending, in other words, if you make these numbers closer to reality, they show that the deficit falls to $215 billion in 2009. This represents probably a much more realistic benchmark for us to make policy decisions. It brings me to what I think is the second most notable point of this report, in that our current rate of spending growth is unsustainable, not that we needed that report to tell us that it was unsustainable. I think we all know that the spending is unsustainable, but you would wonder that the closer you get to election time.

According to CBO, if spending continues in future years or increases at the rate of nominal growth of the economy, the deficit will be increased by $1.38 trillion over the next 10 years, and that situation would be even worse if spending grows faster than the economy, as it has for the past 5 years. Spending is what we have to get under control.

As Dr. Holtz-Eakin has told us before, a growing economic and jobs market will certainly help improve our deficit picture, but alone it is not going to get us back to balance. No one is suggesting here, certainly I am not suggesting here, that we can grow our way out of deficits. Never have I suggested that we have to work both on the economic growth as well as on the spending side.

I am extremely proud of this committee. We have been on the forefront in the efforts to restrain spending in all the non-military, non-Homeland Security spending. Have our efforts always been successful or as successful as we would like? No. Do we think it is going to be any easier in the next Congress? No, probably not. But this report underscores it is not simply an option any more. It is always difficult to get Congress or it certainly has been traditionally difficult to get Congress to focus on the spending side of the equation. We have got to get our spending down to a level that is sustainable, and this committee will lead the effort to do so.

Let me remind everyone, we incurred these deficits through intentional spending. These were intentional decisions. We didn't just find ourselves in this situation, and most of those spending decisions were nonpartisan or certainly bipartisan. They happened at an extraordinarily pace to react to extraordinary circumstances ranging from the terrorist attacks to the conflicts in Iraq, Afghanistan and the economic recession. I doubt that anyone in this room or anyone in Congress would now suggest that we should have simply ignored any of those spending decisions or spending priorities at the time. None that I have heard have been willing to come forward and suggest that they should have been ignored. In fact, I have heard some say we should have spent more.

The money is spent, and we now have deficits. We have to stop wasting our time bickering about how we got here only and focus on the job of what to do about it, which is why we need plans such as the one we passed in this committee. I assure that I and this committee will continue to push and prod our colleagues on both sides of the aisle to restrain spending wherever we can, while continuing to fund our Nation's priorities. We may not win any popularity contests, I guarantee you that, but again, there is no choice to be made here. It simply has to be done.

I thank you, Dr. Holtz-Eakin, for your analysis. You have done an excellent job. Your crew has given us a lot to think about, and you have also given us some policy options other than just the statutory requirement of the baseline to look at so that we can see how those options measure against future decisions that we need to make, and we really do appreciate that extra analysis that was done for our behalf.

With that, let me turn to Mr. Moran for any comments he would like to make any opening comments, and I would ask unanimous consent that all members be given an opportunity, 5 days, to submit a statement in the record at this point. Without objection, so ordered.

Mr. Moran.

Mr. MORAN. Thank you, Mr. Chairman. It is a herculean task to find something positive about this report. I guess it goes back to the old adage, beauty is in the eyes of the beholder. It is like remarking to Mrs. Lincoln, "Well, it was an exciting play at least, wasn't it?"

Anyway, Mr. Director, this is frightening. There are three points that stand out. First of all, your projected unified budget deficit for this year at $422 billion is the largest in history in dollar terms. It is $47 billion higher than the deficit last year, which was the previous record holder. Your projected on budget deficit, essentially that is the deficit taking Social Security out of the picture, which is really the operating deficit for the Federal Government, is $574 billion. So that is really the operable number if we were to stick at least to our rhetoric with all the lock box and stuff, that we ought not be raiding the trust fund. The real deficit, if you do not consider borrowing from Social Security trust funds, is $574 billion.

Thirdly, your projections are of course baseline projections which strictly assume the continuation of existing law. As such, they are even more troubling because this is the first CBO budget assessment since January 1997, more than 7 year ago, that does not in any year show a unified balanced budget. There is no possibility of a balanced budget, as you see it, anywhere out in the future. So in stark contrast to the $5.6 trillion of surplus that was inherited by this administration, $5.6 trillion projected for the next decade by the Clinton administration when this administration took over. They have now turned it around. It is about a $10 trillion reversal to the point where there is not one drop of black ink on the page of the Congress's most trusted projection of the budget over a 10-year horizon. Over this period, the entire Social Security trust fund surplus, along with the Medicare trust fund surplus is dissipated. So much for protecting Social Security and Medicare. So much for the "lock box." How many times did we vote yes on that, Mr. Chairman? Was it 14? It was something like that, but of course where both sides voted for it, and both sides have to take some responsibility I guess.

But as you well know, this 10-year horizon is the beginning of a dangerous time for the budget. The baby boom generation starts to retire in just 5 years. I was born in 1945. I am eligible to retire then. By the time we all retire, we are going to double the number of people on Social Security and Medicare, the largest cohort ever in history—largest age cohort. We may turn out to be the most selfish too. We are certainly going to be the most politically powerful, so we are not going to let the younger generation, I trust, cut any financial or health benefits. So we have a major problem looming ahead of us, and you have given us even greater reason to be concerned because we are stuck in deficit as far as the eye can see.

Then of course there is the remaining budgetary agenda that we heard about last week at the convention, more tax cuts. We know that the alternative minimum tax is going to have to be fixed. We are not going to hit 70 million middle class taxpayers with the alternative minimum tax. That is not calculated in this, nor is there adequate money for the continuing defense buildup that we read about, and of course, a costly war that we seem to be stuck in for a long, long time to come. So you throw in any kind of a natural disaster, any random bad luck, and we have a catastrophe facing us in budgetary terms.

We on our side of the aisle, and actually that is our ace Budget Committee staff of course, they have looked at all of these contingencies, using all the various estimates of the new CBO report. We find that with a reasonable consideration of the administration's program and the political inevitability of relief from the alternative minimum tax, the budget deficit never falls below $320 billion a year, and it is then $320 [billion] in 2006. It rises inexorably though, if you look at all of the most reasonable assumptions, to $504 billion in 2014. At that point the baby boom generation is in the driver's seat. We start retiring, and then of course it gets even more frightening.

Some of the Congress say that we should be of good cheer because this year's deficit at 3.6 percent of the gross domestic product is not the very largest in history. But we want to caution that the true bottom line of our budget is the ratio of the accumulated debt to the GDP, and that ultimate arbiter is clearly a thumbs-down indicator. When we extrapolate the administration's program, we find that our Nation's debt is growing faster than its income, from 34 percent of the GDP in 2002, to 45 percent by 2014, 10 years from now. And again, at that point we want to emphasize the baby boom generation is in full retirement, and it just keeps getting worse from there on.

So our budget right now is unsustainable. If anything goes awry, hurricane, for example, just to use something totally at random that our folks from Florida are very familiar with, you have to put more money up that is not budgeted for.

To close on one last piece of bad news for the budget and the Congress, our Treasury Secretary has put us on notice that we are going to need to raise the statutory debt limit again by another $690 billion—third time in 3 years—and we are going to have to do that before we go home for the holidays. Secretary Snow says that we are going to bump up against the debt limit as early as this month, and that he will exhaust his statutory remedies before Thanksgiving. To compound this bad news, our committee's extrapolation of the budget under the President's policy shows the debt more than doubling to 2014 to almost $15 trillion. It is an unthinkable number. We don't have room to put all the zeroes down. I can imagine how President Reagan might have shown that. We could go to the moon, back and forth, back and forth with that kind of a number. But it is unthinkable, particularly when we consider what is going to happen when our baby boom generation retires.

We thank you for coming to discuss this with us, discuss the implications, and we do look forward to your testimony. Thank you, Mr. Director.

Chairman NUSSLE. Thank you, Mr. Moran.

Director, the entire testimony that you have submitted will be made part of the record, as will your report that you have submitted. We appreciate the good work, and we are pleased to receive your testimony as you care to summarize it.

STATEMENT OF DOUGLAS HOLTZ-EAKIN, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Mr. HOLTZ-EAKIN. Thank you, Mr. Chairman, Mr. Moran, and members of the committee. It is a pleasure to have the chance to present "The Budget and Economic Outlook," as updated for what we now know through this summer. I thank the chairman especially for acknowledging the efforts of the CBO staff, who I think rarely get proper recognition for the effort they put into these documents.

You have had the report, and I will not pretend to go through it in any kind of comprehensive detail, but I did want to use some slides, all of which are contained in the report, to touch on some of what I think are the key parts of the update. And as is my capability, I can go through very, very fast, but certainly we can come back and talk about the details as you wish.

The bottom line I think, which is nicely illustrated in this chart, is that the fundamental fiscal outlook is little changed since March. We have seen some modest improvement in the near-term deficit outlook, particularly the years 2004 and 2005, and modest deterioration in the out years.

Looking at the 10-year budget horizon, the bulk of the change is due to legislation, about $500 billion over the 10-year window that can be attributed to defense appropriations, including $25 billion earmarked for fiscal year 2004 to cover costs of operations in Iraq and Afghanistan.

Given that, and given the balance of risks as we examine the report, the central path of this fiscal outlook will be determined by policy choices and not the path of the economy. Indeed, we will not grow out of the fiscal situation, but Congress will be faced with decisions to make, and we attempt to illustrate those in the report, and I highlight especially that beginning in the second half of this budget window we begin to see the budgetary and economic consequences of the retirement of the baby boom generation and the rapid growth in the programs Medicare, Medicaid and Social Security that are the fundamental source of long-term fiscal pressure in the Federal budget.

As has already been touched on, these are baseline projections. They include the assumption that the Tax Code will proceed as in law, so the tax cuts in 2001 and 2003 will sunset as scheduled, and that the supplemental appropriations mostly for operations in Iraq and Afghanistan, in particular, $87 billion in 2004, another $25 billion in defense appropriations, and a rescission which was undone, leave a total of $115 billion that is devoted to those activities that are in this baseline. They are in there every year, as the chairman mentioned, and contribute $1.4 trillion to the overall tenure, a total of 2.3 in deficits over the 10-year window.

So if we can go to the next slide, the numbers which you have now heard much about are that this year's deficit, 2004, will be $422 billion, 3.6 percent of GDP, 3.6 cents on the national dollar. Those are deficits which are not as large as those experiences in the mid-1980s and early 1990s. Going forward, it will diminish fairly rapidly over the next several years, down to, first, 2.8 percent of GDP and then 2.3 percent of GDP, at which point they will stay in that vicinity for about 5 years until the sunsets occur late in the budget window and we will see the baseline budget move gradually back toward balance at the end of 2014.

Measured in a different way, the 10-year baseline budget deficit of $2.3 trillion is about 1.5 percent of the GDP over this window. Using the indicator debt in the hands of the public as a fraction of GDP, we see such debt rise from about 37 percent at the beginning of the window, to a bit north of 40 percent in the middle, and then with smaller deficits in the out-years it goes back down to about 37 percent.

So the basic profile is one of high near-term deficits, diminishing in the middle of the budget window, and then with sunsets coming back close to balance.

The next slide. Underneath that picture, as in March, there are some interesting profiles on both the spending and the revenue side. Let me spend a little bit of time on each.

First, baseline projections assume that discretionary spending, outlays in that area, will rise at the rate of inflation, about 3 percent over the budget window. And so given that the economy will rise at about 4.7 percent, this is essentially assuming that a smaller fraction of our national economy is devoted to discretionary spending. You can see that at the bottom line. In the middle and the central action on the spending side are those for the mandatory programs. In this projection, all mandatory spending grows at about 5.7 percent per year. Social Security begins to ramp up visibly in the budget window. It grows at about 4.2 percent per year at the beginning and then goes up to about 6.4 percent by 2014, so it goes up by about 50 percent. That is the arrival of the baby boom generation.

Medicare and Medicaid also grow fairly rapidly. Once the changes associated with the Medicare Modernization Act are in place between 2005 and 2007, we see those programs rising at 7 to 8 percent per year in the latter part of the budget window. In between, between 2005 and 2007, Medicare goes up by over 30 percent. That is the new benefit being brought in. Medicaid, due to the switch in responsibilities, grows more slowly than is typical. But taken as a whole, the mandatory programs show very rapid growth over the budget window, particularly the second half, and by 2014 those three programs—Medicare, Medicaid, and Social Security—constitute one-half of all Government spending in the baseline projections.

If we go to the next slide, you can see that there is equally interesting action going on on the receipt side. This year, total Federal receipts are 16.2 percent of GDP, a very low number by historical standards. At the end of the budget window, they rise to 19.8 percent of GDP, which would be above the post-war average of 18.4 percent. So that we see a rise from below-average to above-average receipts. All of that is concentrated in the individual income tax.

The rise of 3.6 percentage points of GDP comes in several pieces: 2.1 percentage points come from the expiration of tax cuts enacted in 2001 and 2003, so that is the sunsets, and that contributes to a part of that. The remainder comes from rising real incomes in our projection, about seven-tenths of a percentage point. It also comes from the taxation of tax-deferred savings accounts—IRAs, 401(k)s. As the baby boom retires, we begin to see those receipts flow into the Federal treasury. It comes as well from the alternative minimum tax, people moving into the AMT due to inflation, as well as higher real incomes, and there is a resumption of capital gains to a more normal level. Overall, individual income taxes rise at a bit over 9 percent per year in the baseline projections. So there is a healthy receipts growth.

If we go to the next slide, all of this is built on an economic projection that I think is characterized by two dominant features. The first is that at the front end of the budget window, our forecast includes a vigorous cyclical recovery. GDP grows at 4.5 percent this year, 2004, and 4.1 percent next year in this projection, bringing the economy back to something approximately its full potential to produce, high employment and full use of capital. That recovery is built on a very large recovery in private investment. As the report details, this recession and recovery, as with the one in the early 1990s, is dominated by an investment swing. We see a healthy rebound in private investment. The need for additional capacity appears to be present. The risk spreads associated with earlier years appear to have diminished so that the setting for capital accumulation is well set up. We also have modest tax incentives present this year to accelerate that investment into 2004. That is augmented by strengthening global economic growth which will help our net export position. And it allows for the pieces of the economy which have really carried the ball in recent years—the household sector as well as policy, fiscal and monetary policy—to hand over the key parts of the economic recovery. Monetary policy can move toward a less accommodative stance in this projection. The household sector is still strong, but it is by no means carrying things. And fiscal policy can become less of a stimulus as well.

So we have a strong cyclical recovery and a fairly low inflation environment at the front end of this. It is a profile that is typical of many of the private investment recoveries that we have examined, and the forecast in general is qualitatively similar to others in the private sector.

At the far end of the budget window, the key factor is, again, the retirement of the baby boom generation. So we will see continued strong productivity growth, but with that retirement a slower growth in the labor force and a decline in the overall growth rate of GDP that is noticeable in these projections, averaging something near 2.8 percentage points per year up to 2009 and then dropping to 2.6 percent in the out-years.

So the economic forecast on which this is built is a strong recovery, solid economic performance, but noticeable impacts, again, of the baby boom and the demographic change that we are entering into.

If we go to the next slide, given that baseline projection, given the forecast as we have set it up, it is sensible to ask what are the natures of the things we do not know about. And I wanted to spend a couple minutes talking about the risks or uncertainties facing this particular projection.

In general, the environment in which this forecast takes place is one which is characterized by risks of terrorism and the economic uncertainties that that brings. It is cognizant of the possibility of housing price growth being slower than it has been in the past several year or even declines in some regions. We face the possibility that world economic growth will not be as fast as we had anticipated. We will not get the support from our export sector. And there is also the chance that households will move toward rebuilding their savings balances more aggressively and as a result spend less than in our projection.

Those kinds of uncertainties that are part of the economic environment lead to the fan chart which shows the spread of potential definition outcomes around the central baseline, the dark area on the chart. Now, one way to interpret this is to say, well, gee, you just do not know much about the future and dismiss the entire exercise. I would like to caution against that. I think a better way to think about this is to recognize that given historical experience in those kinds of uncertainties, there is a 10-percent chance that instead of a deficit of 2 percent of GDP 5 years from now, as the baseline would have, it could be 6 percent of GDP or larger given historic evolution of uncertainties. In the other direction, there is a 25-percent chance that the budget could be in balance or better. And so that in thinking about the way this will play out, there is a 3:1 chance we will remain in deficit, but there is a 1:4 chance that it could move to surplus.

At this point in time, however, there are two specific risks that I think bear mentioning. If we look at the next slide, the first is the risks associated with energy prices and the price of oil in the world economy. Since we put this—can we go to the next slide? Imagine a picture of oil prices such as that, and one of the things that we know is that since we put this forecast to bed in the late summer, we experienced oil price increases that were above those that were embodied in the forecast already. The baseline forecast expected oil prices to be about $40 a barrel in the third quarter and diminish over the next year or so to about $30 a barrel at the end of 2005. In contrast, we saw the price of oil spike up to $47 a barrel and moderate somewhat. But it does raise the possibility that we will have oil prices that are quite different from those which are embedded in the baseline.

To address that issue, we have done some additional thinking since the report was prepared, and I know this is a topic that the chairman discussed to some extent this morning. We did our thinking in the context of the models which he mentioned may not give a satisfactory answer in his view. But, nevertheless, we ran through the models two possibilities. One possibility is that oil prices are simply going to be higher on a sustained basis, that the world oil situation is characterized by rapid growth in demand stemming from not only the United States but the growth of China, India, and other sources, and relatively tight supplies. And as a result, we will see oil prices that remain somewhat elevated compared to the forecast.

The other alternative is we will just get a spike, something consistent with a sharp disruption in supply that then goes away, and in that exercise, we ran oil prices up to $35 a barrel above the baseline and brought them down after a year.

The short version of looking at that is that while both have economic consequences—the sharp spike more severe than the sustained increase—and that while the ultimate consequences will depend a lot on how the Fed reacts to this, that kind of a difference in the economic performance does not translate into a dramatic difference in the budgetary outlook. So that while we would have obvious reason to be concerned about energy prices from the welfare of consumers, from the point of view of economic growth and the inflation outlook, it is not a big budgetary issue and would not change dramatically the baseline budget as we have presented it to you.

The last risk I will mention is risks associated with productivity, and if we go to the next slide, that one, we have a chart we have reproduced from the document itself. Since 1995, the U.S. has experienced very rapid productivity growth, and through the most recent recession and recovery, we have seen productivity continue to grow at a very rapid rate, indeed to in some cases grow even faster. Productivity growth over the year ending in the fourth quarter of 2004 was near 6 percent, remarkably fast. And you can see the line labeled "Actual" demonstrates that sharp rise in productivity.

The judgment call in making the baseline projection then is how much of that productivity growth to imagine will continue into the future. You could imagine simply extrapolating off that last sharp run-up and moving productivity up at a very dramatic rate. That would make a big difference in the outlook. We have chosen to take a middle ground and to say it is true that we have seen productivity growth embrace the historical rise in productivity and raise the level of our potential rate, make the economy more productive in our forecast, but not to extrapolate that most recent burst in productivity, instead to assume the trend will revert back to the post-1995.

In budgetary consequences, each one-tenth of a percentage point in productivity growth translates into about $250 billion in baseline deficit improvement. So that with a baseline deficit of $2.3 trillion, it would require an extraordinary rise in productivity to eliminate that in and of itself. But it is certainly the case that the future path of productivity will have a lot to do with the ultimate budgetary outlook.

Then, in closing, I will come back to what I think is the major theme and which both the chairman and Mr. Moran mentioned in their opening remarks, and that is that policy choices will dictate the central path around which all these risks will evolve. We try to illustrate in the report in broad terms the budgetary implications of some of those choices, alternative paths for the ultimate costs of operations in Iraq and Afghanistan, the ultimate costs of alternative paths for discretionary spending, a freeze versus growing at the rate of the economy, and, finally, the budgetary implications of different treatments of different parts of the tax cuts in 2001 and 2003, in particular the partial expensing versus the remainder of those provisions. These are numbers with which this committee is well familiar. I will not spend time to go through them. They are meant to illustrate that these policy choices are central.

I will only add that what I believe is the most central fiscal pressure from the entitlement programs is not represented on that menu because it is not really easy to show in a 10-year budget window, but as time goes forward becomes more and more important.

Thank you for the chance to be here, and I look forward to your questions.

[The prepared statement of Mr. Holtz-Eakin follows:]

This document, “The Budget and Economic Outlook: An Update,” can be accessed electronically on CBO’s website at:

http://www.cbo.gov/ftpdocs/57xx/doc5773/08-24-BudgetUpdate.pdf

Chairman NUSSLE. Thank you.

If you could put up chart 15 to start my questioning? First of all, thank you for your testimony and for your work and the work of all of the analysts at CBO to give us this information. Chart 15 that I have shows the real GDP growth, and my understanding is that the last year real GDP grew at 4.7 percent. Is that correct?

Mr. HOLTZ-EAKIN. Yes.

Chairman NUSSLE. OK. What is CBO forecasting for the final two quarters of 2004?

Mr. HOLTZ-EAKIN. We do not have a quarter-by-quarter forecast, but given what we have seen, we have expected 2004 to come in at 4.5 percent overall, 2.8 in the second quarter, faster than that in the first. We still think we are on track to see that forecast come through.

Chairman NUSSLE. What is your analysis or what would be a common analysis for what is considered good growth? Now, I understand it may be in the eye of the beholder, but give as objective a view as what the rule of thumb for good growth—or how you make the departure in that benchmark.

Mr. HOLTZ-EAKIN. Taking aside the label “good,” as you mentioned, which is in the eye of the beholder, economists would distinguish between that part of growth which represents growth in the capacity to produce, which is our potential GDP in our projections, and that growth which comes from cyclical recovery and just getting back to using all your resources efficiently.

In our projections, potential GDP comes from having people and their skills, adding technologies and capital with which they can work; potential GDP grows at about 3 percent overall in the 10-year budget window, slows down a bit in the end, as I mentioned, due to the baby boom.

Chairman NUSSLE. So 3 percent is where you just get back to using the capacity of our economy.

Mr. HOLTZ-EAKIN. Yes.

Chairman NUSSLE. So anything above the 3 percent would be considered good?

Mr. HOLTZ-EAKIN. Above potential growth, recovery to and then perhaps going above for a brief time.

Chairman NUSSLE. So just taking this chart, we have been doing good—I guess I didn’t ask you “well.” We have been doing well. But according to that definition, not only on an annual basis but even on a quarterly basis, we have been doing well and the economy has been performing above capacity, and it appears, at least according to CBO as well as Blue Chip, that that will continue.

What would full employment—I mean, I remember taking the economics classes in college and hearing somebody’s definition at that time of what full employment is in this country. Is there a common rule of thumb, at least the top and the bottom, of what full employment is in this country and how you might compare that?

Mr. HOLTZ-EAKIN. I think there is a consensus vague definition that full employment is a high level of resource use, and there is an enormous disagreement about the specific numbers of the unemployment rate that would be consistent with that. In our projections, we anticipate that once the economy goes back to its full use of capacity, which we would think would occur by the end of 2005, going forward we would expect the unemployment rate to be in the vicinity of 5.2 percent. That is a number that is consistent with full utilization of resources in our projection. There is an enormous amount of uncertainty. Some people would argue that number belongs below 5 percent, for example. But given the evidence we have looked at, at the moment that seems like a reasonable estimate.

Chairman NUSSLE. The average rates of unemployment during the last three decades, in the 1970s it was over 6 percent; it was 6.2 percent. In the 1980s, it was 7.3 percent in the 1980s. And in the 1990s, it was even higher than we find now; it was 5.8 percent as an average. Now, I know you can take all different periods of time, but at 5.4 percent, certainly that still means people are looking for work, clearly, but that is below certainly the decade averages. Compared to where we were last year at this time, which I believe was 6.3 percent, we are moving in the right direction.

Mr. HOLTZ-EAKIN. Certainly the unemployment rate coming down in that way is consistent with the rapid GDP growth illustrated in these bars as the economy moves back to using both its workers and its capital in a more complete fashion.

Chairman NUSSLE. "This is the worst deficit in history," cried the papers yesterday, as I read the headlines. And I thought to myself, "Wow, what a short memory. Is this the worst deficit in history?" And how do you even try and compare deficits? What is the best way to compare them, and is this the worst deficit in history?

Mr. HOLTZ-EAKIN. This is the largest dollar value for a unified deficit in the Federal Government's history. To compare deficits across the time, the first step you would want to make would be to put those dollars on an equal footing, adjusted for inflation. But perhaps an easier way to do it would be to make it relative to the capacity to repay the debts that are being incurred. And for that reason, I think it is most appropriate to look at deficits as a fraction of GDP. This is 3.6 percent of GDP, not the largest in postwar, certainly, which was 6 percent of GDP back in the 1980s.

Chairman NUSSLE. We have a chart that—skip, if you would not mind, to that. We have a brand new chart that we have breathlessly brought to the committee to show the 10—or actually the 12 worst post-war deficits, and we will make this available to Members and the media, because I just wanted to find out, based on your definition which one is the worst. And, you know, we are right now at 3.6 percent of GDP in 2004. Last year's ranked 11th, and that was 3.7 percent. Actually, you can see that is an interesting number right there: $422 billion as compared to the gross domestic product is less than $401 billion last year was to the same economy and output. So you have got that there.

But, I mean, interestingly enough, that is not—neither one of those are even in the top 10 deficits. In 1946, we were up at 7 percent. You just said in 1983 we were at 6 percent; 1985, 5.1 percent; end of the 1990s, 4.7 percent. When I came to Congress, it was 3.9

percent. So we are even below that. Even though the nominal figure is higher compared to the gross domestic product, it is not as high as it could be.

Now, I want to underscore by saying that by not suggesting to anybody that this is not a bad deficit or that we do not want to do something about it. But it just was amazing to me to see the headlines crying out that this somehow was the worst deficit in history, when, in fact, it was not when you compare it to our ability to repay it, to our economy to deal with it. A $200,000 mortgage for me is a lot of money. I will just report that, and that may be full disclosure that, as I said before, my wife does not want out there. But to Donald Trump, I am not sure that probably would be much of an impact. You have got to compare the deficit to something. It does not mean that he and I both would not want to reduce our indebtedness, but you have got to compare this to something. And it is certainly not the worst deficit in history.

Mr. THOMPSON. Mr. Chairman.

Chairman NUSSLE. Please.

Mr. THOMPSON. Could I just ask——

Chairman NUSSLE. Oh, you will have more than ample time to——

Mr. THOMPSON. I just need to understand your analogy, if I could.

Chairman NUSSLE. Oh, I think you understood it just fine. I will be glad to provide you with the chart, and you can draw your own analogy. If you want to continue to say this is the worst deficit in history, that is fine. Keep talking down the economy. Keep doing all those things. That is fine. You will have your opportunity. But I think it is a little bit of a desperate tack. I would much rather see effort put into coming up with a plan to deal with it than to just try and make political hay out of it. And we have a plan. We are controlling spending. The economy is coming back and that is the right recipe. It was the right recipe in the 1990s to grow the economy and control spending, and it will be the right recipe now as we continue on the track to getting back toward a balanced budget.

With that, let me end my questions and recognize Mr. Moran.

Mr. MORAN. Thank you, Mr. Chairman.

You can put that chart back. That is a fascinating chart. If we could, could we put that one back? We have an extraordinary House Budget Committee staff over here. I know you guys are good, too, but ours just remarked—and I wanted my colleagues to recognize this, too. And I am appreciative that you brought this chart up——

Chairman NUSSLE. Careful, because I did not put in there who was controlling Congress at the time, and you might notice that the Democrats were controlling——

Mr. MORAN. Well, what I wanted to point out, Mr. Chairman—you may have anticipated this observation so you are undoubtedly aware. In 1946, of course, that was Franklin Roosevelt. We had a deficit because we had to spend a little money to preserve the free world. But beyond that, every single one of those other ten deficits were under a Republican President. Do you recognize it? Every single one of them. Numbers 2–7 were Reagan and Bush, 8 was

Nixon-Ford, 9 and 10 was again Reagan-Bush, 11 and 12 is President Bush the junior. So it is remarkable that——

Chairman NUSSLE. Who was in control of Congress during those times?

Mr. MORAN. Well, you mean the Reagan-Bush—you mean President Bush Jr., 11 and 12? I think that you are in control of both the House and the Senate. That is probably why you are sitting in the chairman's seat, Mr. Chairman.

Chairman NUSSLE. We will take credit for those.

Mr. MORAN. Take credit. Well, be our guest.

What I wanted to ask you about, Dr. Holtz-Eakin, when we get back to focusing on you and your excellent report, statistics, Dr. Holtz-Eakin show that receipts as a percentage of the gross domestic product were at 16.5 percent in 2003. They fall to 15.8 percent in 2004.

Now, in 2003, that was the lowest amount of revenue as a percentage of GDP since 1951. This past year, it was the lowest since 1950 as a percent of GDP.

Now, both of these figures are way below the average of revenues, which, on average, revenue has been about 18 percent of gross domestic product. From 1962–2003, over a 40-year period, it averages 18 percent. Meanwhile, over the 10-year budget window, the highest figure that you show for spending as a percentage of gross domestic product is in 2011 at 20.2 percent. That figure is less than the average of outlays spending for the 1962–2003 period, that 40-year period. It is also less than receipts were in fiscal year 2000 when the Clinton administration balanced the budget.

So if revenue is way below its historical norm and spending, though, is within the average for the last 40 years, and, in fact, if spending is at a level that is consistent with the level it was when we balanced the budget in the year 2000—in fact, we generated a substantial surplus just 4 years ago—how does it make any sense to say that our budget has a spending problem rather than a revenue problem? Couldn't you maintain that the real problem is not so much spending—even though the party in control has increased spending by 8 percent a year over the last 4 years, the reality is that spending is considerably less—excuse me. Revenue is considerably less than average revenue, and yet spending is just about even with what it normally has been.

So the point is that when we—and we have tried to emphasize this. We keep trying to get these triggers in the Tax Code. When the tax cuts were passed, there were sunset provisions. Now, you know, some might think it was merely to manipulate the budget resolution so you could have a more restrictive budget limit. But I trust that they were genuinely put in there. And we had, of course, a surplus for 2004 when they were put in of almost $400 billion. Now we have had a swing of $800 billion. We have a deficit of $422 [billion].

But is it not a valid option when things change so dramatically to, in fact, have a trigger that would sunset tax cuts until they can actually be paid and do not, in fact, exacerbate the budget deficit beyond what we are faced with now?

Mr. HOLTZ-EAKIN. It is certainly within the power of Congress to construct both the spending and the tax side in that way.

Mr. MORAN. Yes, you are giving me kind of the same answer we got from Alan Greenspan. You know, sure, we can do what we want, but the point is—and I want to make sure that I am not missing something—that, in fact, revenues are much less than they historically have been. Are they not?

Mr. HOLTZ-EAKIN. Yes.

Mr. MORAN. They are considerably less. Yet spending is consistent with what it generally has been as a percentage of gross domestic product, is it not?

Mr. HOLTZ-EAKIN. It is close to the 20-percent range that it has been on average in the post-war.

Mr. MORAN. OK. And, in fact, when it was at that level, the Clinton administration was able to balance the budget and even produce a surplus in 2000.

Mr. HOLTZ-EAKIN. Yes.

Mr. MORAN. I know that is a factual statement. Well, maybe I am actually directing the question more at my colleagues on the right than at you, but I wanted to make sure that our assumptions are accurate.

So this really is an issue of revenue more than spending, even though all the emphasis seems to be on trying to control spending. Spending is just about what it normally has been to keep this economy functioning. Thank you, Dr. Holtz-Eakin. I know that there are other questioners.

I have one other issue, though, if I could, Mr. Chairman, on Medicare Part B premiums because we just got information that the Medicare program is going to go up by 17 percent, premiums will go up by 17 percent in 2005. Now, when seniors have come to us, they say, well, how is that going to—how am I going to pay for that given the small COLA that I will get? I think the COLA is about 2.7 percent. Is that what we are figuring?

Mr. HOLTZ-EAKIN. About that range.

Mr. MORAN. Cost of living about that. And they have to pay 25 percent of the Medicare premium. It looks as though about half of their entire cost-of-living increase is going to be taken up by their Medicare premium, particularly after the Medicare prescription drug bill goes into effect and we have to pay for both higher—we are going to have to pay for private insurance carriers. There is legislation, 79 cosponsors I know are on it, including Mrs. Capps, Mr. Edwards, Mr. Cooper, Mr. David, Mr. Lewis, Mr. Neal, and Mr. Scott. It appears to be most of the Democratic members of the Budget Committee are on legislation that would, in fact, protect those seniors from having to pay those higher premiums.

I think this is a major issue, and I suspect my colleagues are going to elaborate on it a bit in further questioning, but thank you, Mr. Chairman. I am not going to take up any more time right now. Thank you.

Chairman NUSSLE. Mr. Diaz-Balart.

Mr. DIAZ-BALART. No questions at this time.

Chairman NUSSLE. OK. Mr. Gutknecht.

Mr. GUTKNECHT. Thank you, Mr. Chairman.

I called up earlier a chart—I think is it No. 13? Can we bring that one up again. I am not asking you really to criticize, any of your predecessors at Congressional Budget Office, but I think it is important we put this in some historical perspective. One of the things—and I have the quote here somewhere, and I will paraphrase it only slightly. It is not exact. But just 3 years ago, the Congressional Budget Office was telling us that we could look forward to surpluses of $5.6 trillion as you see on that chart. And we understand that that was—I would not call it an educated guess, but we understood at that time that, they could be wrong. And there are always things out there that we do not foresee.

But some of the folks who say that the tax cuts are the problem, the quote that we had—and this was 5 days before the September 11 attack, your predecessor was here testifying before this committee. And at that time, even after the passage of the tax cuts, we were looking at projected surpluses of over $3 trillion for the next 10 years.

I wonder if you could just comment on your assessment of how we could have gone from $5.5 trillion surpluses to multi-trillion-dollar deficits in the course of 3 years. And, more importantly, if you look at that chart, really the tax cuts that we passed in the last 3 or 4 years have really only represented less than a third of the change, if you will, in those assessments. I wonder if you could just comment on that.

Mr. HOLTZ-EAKIN. Certainly. One thing you can do is simply do the essentially budgetary autopsy between, say for 2004, what was projected then versus what we now project and the swing from surplus to deficit. Mechanically, that swing comes in the form of legislation which has transpired in the interim on the receipt side, legislation on the outlay side, and then what is left over, which takes the form of economic and technical changes in our projections.

The numbers differ depending which year you pick, but when we look at those numbers, what we learn is that on the order of 60 percent—or I would say about 40 percent is in the form of legislation. So the dominant impact has been change in legislation since the projections were made, with a big piece, 40 percent or so, which is economics and technicals.

That decomposition is far from obvious. Many of the things that we label technicals you might think of as economic, such as the large collapse in capital gains receipts, the incomes associated with bonuses and options and the tax receipts that flowed from them. All that gets lumped into the technical because that is performance above and beyond that which you would be able to capture in the state of GDP or unemployment, say.

So if one looks mechanically at given years in that window or the 10-year budget surpluses, it turns out that over 50 percent of it is typically attributed to legislation; the remainder is due to economics and technicals; and within that part, not forecasting a recession as part of it, but not being able to fully anticipate the consequences of the large rise in equity-related incomes in the late 1990s, bonuses, options, capital gains, and the subsequent decline in those in the early 2000 period. That is really at the heart of the difference between what we projected then and what we have now. Whether those projections could be done better the next time around in light of that is the ultimate question. You try to learn from that.

Mr. GUTKNECHT. The other question that my colleague from Virginia raised—and I think it is a legitimate issue and we ought to have some serious discussion about it. But I come at it from a little different perspective, and I certainly do not want to defend watching seniors' premiums go up by 17 percent. On the other hand, at some point we have to come to grips with the fact, it seems to me, that this health care thing is starting to eat us all over. I mean, small business people are talking—when I spent the month at home, virtually every small business person that I talked to talked about the rising cost of health care. And it strikes me that we have had precious little discussion on what we can do.

Now, I think there have been some things—and I am a big believer in medical savings accounts or health savings accounts. But I think at the end of the day—and I do not know if you want to comment on this, but that has got to become a bigger and bigger drag on our overall economy. If we are spending 15 percent of our gross domestic product on health care, and many of the countries that we compete against are spending 8 or 9 percent, it strikes me that that is a fact that we have to deal with. That is not a debate. I mean, that is a fact.

Mr. HOLTZ-EAKIN. I think it is a very important issue. As I said in my opening remarks, the most pressing fiscal issue is associated with Social Security and Medicare and Medicaid, and the latter two are really the ones which get the largest the fastest.

To give you a flavor, in our 2003 study of the long-term budget outlook, we examined the historic growth in health care costs in those programs. Health care costs per beneficiary rose 2.5 percent faster than GDP per capita, so spending per beneficiary rose relative to income per person.

If one repeated in the next 50 years the experience of the past 30, that 2.5-percent excess cost growth, those programs which are now 4 percent of GDP rise to 20 percent of GDP, or the current size of the Federal Government.

Now, that is not the typical assumption. The typical assumption is that something will intervene to moderate the pace of cost growth and we will end up at somewhere around 12 percent of GDP. But, nevertheless, it is important to recognize that that is a factor in the budget outlook and that it reflects health care costs, not the structure of those programs. And so it also affects the private sector and health care spending as a whole.

I don't offer any easy solutions to that, but it is important to recognize that it is out there and it is an important fiscal consideration.

Mr. GUTKNECHT. Thank you.

Chairman NUSSLE. Mr. Edwards.

Mr. EDWARDS. Mr. Chairman, I am amazed that the Republican Party, which for decades prided itself as the party of fiscal responsibility and balanced budgets, now at least in Congress seems to be the party that goes out of its way to minimize the significance of the largest deficit in American history. And, yes, it is the largest deficit in American history. The chairman said we should compare it to something. Well, let me do that.

Prior to this administration, the largest deficit in American history was in 1992 under former President Bush's administration. It was $292 billion. This year's deficit is $422 billion.

Let me compare it to something. It took two centuries for this Nation to build up $1 trillion in national debt. In just the last 2 years alone, under the leadership of partisan budgets put together, chosen to be in a partisan way by this committee and House Republicans leaders, has resulted in deficits that nearly equal the total combined deficits for the first 200 years of our Nation's economy.

Now, I want to ask the staff to put back up the chart that Mr. Moran and originally Chairman Nussle asked to show regarding deficits as a percent of GDP. Could the staff put that up on the screen, please? It is the one that showed the years of highest deficits as a percentage of GDP.

Now, some have defined insanity as being to do the same thing over and over and over and over again and to expect different outcomes or results. Now, let me point out the chart Chairman Nussle brought out earlier. If you look at many of those years of highest deficits in our Nation's history as a percent of GDP, those just happen to have come in the wake of the Reagan tax cut in 1981. The last time anyone in Washington promised a free-lunch ideology that you can have massive defense build-ups, massive tax cuts, and balance the budgets: 1983, 1985, 1986, 1984, 1992, the largest deficit in American history at that time before this administration, 1991. You know, I thank the chairman for pointing out that the false promise to the American people that you could have a free lunch, that you could have massive defense increases, you could balance the budget and have massive tax cuts, proved to be a false promise in the 1980s. In fact, President Reagan had to ultimately agree to, I believe, four tax increases to overcome those false promises. The only difference between then and now is we should have learned about the lessons of 20 years ago. At least some of President Reagan's Budget Directors were honest enough to admit that they knew they had cooked the books. They knew you could not promise the American people defense increases, massive tax cuts, and balanced budgets.

Here we are 20 years later doing the same thing again and again and again as we did in 2001, 2002, 2003, and now 2004, promising different results from the same flawed free-lunch philosophy.

Mr. Chairman, massive Federal deficits are wrong for our economy and jobs, and they are wrong for our children's future. And I believe those Members of Congress who led us down the primrose path of promises of massive tax cuts, defense build-ups, and balanced budgets should once and for all be honest with the American people, take personal responsibility as they preach to welfare recipients, and admit that their free-lunch economic ideology simply has not worked when it has come to creating massive Federal deficits that threaten today's economic growth and our children's and grandchildren's futures.

You know, the cost of this flawed ideology is enormous. It is real. We have for the second year in a row in actual dollars the largest deficit in American history. Whether they want to hear that or not, it is the truth. These deficits will harm our economy and our families by driving up the price of buying a house or building a business, thus stunting economic growth—an impact that even Dr. Holtz-Eakin I think in his last report mentioned on dynamic scoring.

And, finally, I would say as we borrow billions of dollars from China and other foreign nations to finance our deficits, our Nation becomes more dependent upon those nations, less able to negotiate fair trade deals with those countries, and literally putting our economy at the mercy of the good will of the Chinese and other foreign nations.

Mr. Chairman, I will submit my addition comments for the record, and I would like to reserve time in the next round, if we have one, for additional questions.

Chairman NUSSLE. Mr. Garrett.

Mr. GARRETT. Thank you, Mr. Chairman.

I had the opportunity to be here earlier this morning when Mr. Greenspan was here for his testimony and for almost all of your testimony as well. The thing that I walk away from, as far as hearing both of your testimonies—and I hope that the people that are reviewing what is occurring here today—is that overall, generally speaking, the policies that this Congress has put in place and the administration has attempted to enact and has enacted are, generally speaking, working; that we are seeing an economy that is certainly growing, that is larger than where we were just a couple years ago; that you see a growth in gross domestic product, around 4.4, 4.5 percent. All the charts—and I am not going to pull up the charts, but the charts that you looked at before show that that is—whether you want to define that as good or well or I think that is really good, we are doing well in the areas of GDP.

Back home, when I go to town-hall meetings, one of the issues they talk about is job growth, and the testimony that we heard earlier today in that field as well is that we are seeing that job growth—144,000 last month, 1.7 million over the period of time, last year—and not so much in my district where there is not a heck of a lot of manufacturing going on, but nationally, the testimony earlier today was that we have seen significant improvements in the manufacturing as well. Home starts, that is certainly something you would see in my district. You see that continually going off the charts. I don't quite understand how it can continue to go at that trend, but somehow or other it continues.

So, overall, the impact of what we have done in this Congress appears to be a positive one in each one of those areas, with the caveat, of course, that there is still work to be done. Certainly going back to the unemployment side, my district is pretty good at around 5.0 percent in a couple of counties, 5.1 percent in one of the other counties in my district. But overall we still have some work to do, it appears, in the unemployment area. Also, as Mr. Gutknecht was raising, as far as the health care side of the equation, it seems that we have some work to do there as well as far as bringing down the cost.

You went very quickly over a number, and maybe you can just throw it out again at me, with regard to where we are going to be somewhere down the road with regard to overall health care costs and Medicare and Medicaid and how that is going to impact upon, what size it is going to be on our economy overall down the road.

Mr. HOLTZ-EAKIN. The number I gave you, which was by no means a forecast, but it tells you the power of these numbers in the overall economy, is Medicare and Medicaid are currently about 4 percent of GDP, combined, the Federal share of Medicare—Medicaid plus Medicare. If costs per beneficiary continue to rise in the future, as they have in the past 30 years, those two programs would grow to 20 percent of GDP, roughly the size of the entire Federal Government.

So that dominates the long-term budget outlook, and the possibility of continued increases in health care costs on top of the aging of the baby boom generation is the number one long-term budgetary pressure. I don't know if it will be that fast. One hesitates to believe that it can continue at that pace. But if it even drops to 1 percent faster than GDP, we still get to 12 percent. You know, these numbers are large, and they are important and merit attention.

Mr. GARRETT. And reiterate what percentage of the entire Federal budget, not of GDP?

Mr. HOLTZ-EAKIN. The current Federal budget is 20 percent of GDP, so that if those grew to 20 percent of GDP, they would be the size the entire Federal budget is right now.

Mr. GARRETT. Because some of the argument that is made on the other side of the aisle, and by others as well, is that when you are looking at the ledger sheets, there are two sides: the spending side of the equation and the revenue side. And some are suggesting that you can solve some of these problems simply by increasing the revenue side of the equation, although for the life of me, I have never met anyone in business or in family life or anywhere else where they said all we need to do to solve your problem in your household is to have you pay more taxes, or all we need to do to help your small business is to take more money away from you. I haven't seen anyone that tells me that. But there is that argument that raising the revenue will address that issue. But if we are looking toward the day where our entire budget is going to those expenditures, can we ever make the argument that spending is not the problem that we have to address?

Mr. HOLTZ-EAKIN. I will give you two responses to that to frame it up. The first is that a lot of what CBO does in these hearings is tell you the implications of current law so that you can decide which way you want to move. If one does the current law extrapolation out to 2050, acknowledge that that is extremely heroic given how we do on 10-year, but it says that receipts rise to about 25 percent of GDP. So there is built into the existing Tax Code a substantial rise in revenues. That rise in revenues would be unlikely to be sufficient to cover the growth in spending built into the entitlement programs, so that as Mr. Greenspan mentioned this morning, there is an imbalance that is built in.

In terms of policy, it seems to me that the message that we talked about when I talked about the long-term costs of Federal obligations still is true, which is the first-order measure of costs is how much you spend, and then you choose the means to finance that spending. So the first thing to decide is how much and what programs to finance.

Mr. GARRETT. Thank you very much.

Chairman NUSSLE. Mrs. Capps.

Mrs. CAPPS. Thank you, Mr. Chairman.

Director Holtz-Eakin, thank you for being here. I am going to ask a question about the Medicare Payment Advisory Commission. According to this commission Medicare is paying private plans an average of 107 percent of what it would cost to cover the same seniors in traditional Medicare. When you account for the fact that HHS data shows that seniors in private plans are healthier than average Medicare beneficiaries, overpayments to plans are more like 115 percent. My question to you, as a budget and economic expert, what is the logic to overpaying private plans by up to 15 percent, and is overpaying private plans for services that would cost less in the traditional Medicare payment system a good use of taxpayer dollars?

Mr. HOLTZ-EAKIN. Well, as a budget director I can tell you that budgets measure cost, and indeed those are the costs associated with this policy, but presumably those costs are put in place for an objective, and this particular objective dates as far back as 1997. Congress has on a regular basis since then embraced the notion that in order to make Medicare Plus Choice or Medicare Advantage Plans available in higher cost areas, that they would be willing to spend more money to do so, and these payments are a reflection of that policy.

Mrs. CAPPS. I guess I am bothered by the fact that Medicare costs are going to increase dramatically because of the baby boom generation and the retirement, and that will cause an inexorable rise also of health care costs per se. Yet, the plan that the Republican leadership has put forth to save Medicare relies on turning this program over to private plans that will charge taxpayers 15 percent more, a surcharge if you will, to provide seniors with the same level of health care that presumably they could be getting at this point.

I want to now address a topic that Mr. Moran brought up at the end of his time because it is about health care as well. As you know, Health and Human Services announced this past Friday that the monthly premium for Medicare Part B will be $78.20 next year. This announcement was made the day after the President gave his acceptance speech at the Republican Convention, at which he described in glowing terms the programs that Medicare provides for seniors. This increase is $11.60 or 17 percent over the 2004 premium of $66.80. It is the second largest premium increase in the history of the program. This premium increase, this is what I want to ask you about, this could wipe out a senior citizen's Social Security cost of living increase. I wonder if you could tell me what you estimate the Social Security COLA will be in 2005?

Mr. HOLTZ-EAKIN. I don't know that number off the top of my head. I do know that we looked at this issue in our March report, and at that point we expected a 14 percent increase based largely on what we knew about the Medicare Modernization Act, and that we knew that this would impact a larger number of seniors with regard to their Social Security checks. Since the actual premiums come in at 17 percent, I don't know how it will balance out, but we can easily get those numbers for you once we work through it.

Mrs. CAPPS. I would appreciate that because it seems that many seniors could really lose their entire COLA due to this increase in the Medicare premium. And then again, how many seniors would lose 50 percent or more of their COLA due to this premium increase? I imagine you are going to have to get the same numbers?

Mr. HOLTZ-EAKIN. Yes. What we knew in March was that given the projections, we saw the number of seniors affected moving from about a little under 1.5 million to something a bit under 6 million, 5.8 [million] I think. The premium increase came in a bit bigger than we expected and the COLA we have to nail down, and we could work through and get the exact projections.

Mrs. CAPPS. Isn't it true that not getting a COLA is the same as getting a cut in benefits?

Mr. HOLTZ-EAKIN. In real purchasing power, yes.

Mrs. CAPPS. In real purchasing power it amounts to the same thing. In other words, a senior with a monthly check of $860 would lose 50 percent of their COLA to this premium increase. A 2.7 percent COLA on the benefit of $860 is $23, so the Medicare premium increase of $11 consumes half of this COLA and that is for someone getting a monthly check of $860. The average monthly benefit this year is around $846, I have been led to believe is roughly the case. A senior with a check of $860 or less will lose half of their COLA to the Medicare premium. It seems clear to me that a lot of seniors could be in the situation of losing up to half of their COLA, some of them maybe even more than that, due to the very Medicare premium increase that we have been talking about. There is a few seconds if you could comment on that.

Mr. HOLTZ-EAKIN. Well, we can certainly work through the numbers. It is the case that to the extent that your purchasing power doesn't go up at the rate of inflation, then your real purchasing power goes down. A broader calculation would include what they are getting for their Medicare premium included in that, and we could work it out as well.

Mrs. CAPPS. Thank you. I yield back.

Chairman NUSSLE. Mr. Diaz-Balart.

Mr. DIAZ-BALART. Thank you very much, Mr. Chairman. One of the things that I learned in my short time in DC is how all of us get into this mode that what happens in DC kind of happens in a vacuum, it is not affected by things outside of DC, nor does it affect things outside of DC. I just heard a person that I really respect, Congressman Edwards, talk about the failed policies of the Reagan administration as if, you know, everything happened in a vacuum. We have to remember what happened, what was there when President Reagan took the White House. Does anybody forget that Americans were taken hostage, that Americans were taken hostage? Does anybody forget that when you traveled around the world, different offices would tell you to not look like an American because you were subject to getting taken hostage or subject to abuse? Does anybody forget that the President of the United States, Jimmy Carter, said that the country was in a state of malaise? That is what President Reagan inherited.

And what did he do with the policies that my dear friend, Mr. Edwards, said were failed? He took this country out of that state of malaise, using President Carter's words about the American people, not about his administration which was really the real cause of the malaise, and he brought this country to its former glory despite the fact that again, what he inherited was the removal of the Shah or Iran and the replacement with Ayatollah Khomeini. Again, things don't happen in a vacuum. History obviously will show that President Reagan was one of the greatest Presidents in the history of our country because what he did was really regroup the United States and also defeat—start the defeat of the Soviet Union without firing one single shot. But he inherited what his predecessor called a state of malaise.

To not realize how the economy is doing right now and also putting it in perspective to where we were, I think again is kind of this Washington attitude. When President Bush inherited the White House—he didn't inherit it—when he won the White House, and what he inherited was the beginning of recession, and what he inherited was an attack on the United States of America, a war that he did not ask for. What he inherited was the implosion of the Internet companies, which he inherited which he had nothing to do with. What he inherited was the Wall Street scandals. Again, this is not a vacuum. We can't forget, you know, believe our own little ivory tower here. And despite 9/11 and despite all those attacks on our economy, some of those by our enemies and others by some corrupt people on Wall Street and others, despite that, doctor, you are saying that according to your numbers, economic growth, if it is over 4 percent is a relatively healthy economic growth.

When you look at what could have been, if it wasn't for the policies of this President and of this Congress, to me that is a scary thought. So, again, I think it is just important that we kind of take a deep breath and not forget that though we kind of sometimes forget that we do not live in a vacuum and decisions that we make up here do impact real people, decisions that were made in the past impact real people, and decisions that we make now. Again, I think when you look at this economic growth and you look at the fact of the largest attack on the history of this country, and the fact that we are at war, compare those numbers, compare these deficit numbers with, again, post-war numbers or during war numbers when the United States has been at war in other times.

Mr. Chairman, I just have to—me as a guy who is relatively new here, I wanted just to remind myself to not kind of get stuck in this ivory tower attitude that it doesn't matter, nothing matters, that this is a vacuum and that we can play with numbers in every single way. The bottom line is the economy is doing, I think, well and getting better because of this President despite—because I don't believe in that vacuum attitude—despite what the reality was which was again the United States was attacked, the Wall Street scandals, et cetera, et cetera. I think that says a lot for these policies that are clearly working, and we have to continue to work to make sure that we continue this economic growth, and I think part of that is to control spending.

Thank you, Mr. Chairman.

Chairman NUSSLE. Mr. Emanuel.

Mr. EMANUEL. Thank you, Mr. Chairman.

Thank you, Director. I know a lot of us have focused on your report just the other day on the deficit. I would like to ask you about the summer report of August 13, by CBO and make sure that I got this right, your analysis basically on the tax cuts.

Mr. HOLTZ-EAKIN. Yes.

Mr. EMANUEL. The top 1 percent of households will receive one-third of the tax cuts in 2004. Does that summarize the analysis that you did?

Mr. HOLTZ-EAKIN. That would not be my summary of the analysis. You might be able to pull that number out.

Mr. EMANUEL. How about this? The top 1 percent will receive an average tax cut of 78,000 in 2004, more than 70 times the average tax cut received by the middle fifth of households. Those in the bottom fifth will receive an average tax cut of $230 in 2004, and the average income of the top 1 percent is $1.2 million. And as we relate the August 13, CBO analysis of the distribution of the three Bush tax cuts, that as we argue about the deficit and tax cuts, et cetera, that if we extended these tax cuts as being called for, that the additional debt would go from $2.3 trillion to approximately $4.5 trillion. Is that correct?

Mr. HOLTZ-EAKIN. The budget cost of extending the tax cuts, about right, yes.

Mr. EMANUEL. Is about $4.5 trillion.

Mr. HOLTZ-EAKIN. The tax cuts themselves are about $1.2 [trillion], $1.3 [trillion].

Mr. EMANUEL. Right, the combined, OK.

Mr. HOLTZ-EAKIN. Total.

Mr. EMANUEL. I understand. Second, if I understand what you said today in the paper, that the idea, the concept, the theory, whatever adjective you want to use, that a growing economy will solve the deficit as a problem is not correct, that it will require more than just having a healthy growing economy. That is what you were quoted as——

Mr. HOLTZ-EAKIN. Yes, and I hope that came out in my opening statement, that we cannot count on economic growth alone to remove deficits.

Mr. EMANUEL. And basically that it would require both a healthy economy, a change in our tax policy, whether you want to call it a reform or increase, whatever adjective you want to use to describe it, and spending restraint, if you want to make one of the economic goals is to return the budget into some form of balance or reduce the deficit. It is going to require all three of those?

Mr. HOLTZ-EAKIN. You could do it with just spending. You could do it with just taxes. As you know, I believe——

Mr. EMANUEL. But a balance——

Mr. HOLTZ-EAKIN [continuing]. Decide what you want to do and finance it.

Mr. EMANUEL. OK. But I want to make sure that I understood correctly from your August 13 report and analysis that the distribution is how those tax cuts, all three of them, basically impact, that they were not equal across income groups, that some people making more money got more of the benefits on dollar terms than those at the lower half, middle to lower half?

Mr. HOLTZ-EAKIN. Mr. Chairman, I don't want to take his time. I never felt that that report was very well understood, nor—can I take a couple minutes and walk through this without getting things off track?

Chairman NUSSLE. Yes. We can do that. The gentleman, Mr. Emanuel, will be recognized for 2 minutes after you complete your statement.

Mr. HOLTZ-EAKIN. My 10-second version of that report. I brought a slide or two, because the first thing that has been said about that which—not to pick on you—has been repeated is that——

Mr. EMANUEL. Go ahead. I am a middle child. You can go ahead and pick on me. [Laughter.]

Mr. HOLTZ-EAKIN. We share that burden

Mr. EMANUEL. It is a burden that we will bear the rest of our lives.

Mr. HOLTZ-EAKIN. I may never recover. [Laughter.]

What I wanted to show is the entire history as we have computed of these effective tax rate studies, and then what you see at the right side is the subject of the August 13 report, what would be effective tax rates under current law, which is the bottom line, and then the dotted line which is 2001 law.

Part of my frustration with the characterization of this report is that everything to the left of the dotted line is history and reflects from 2001 and back actual incomes, actual tax payments, and in this particular formulation, actual effective tax rates, which are an economic measure of the burden of taxation divided by comprehensive economic income, not merely a taxable income, but access to Medicare and other things like that. So we can get into that, but it will take us off course.

Importantly, going forward, and the topic of the report is not anything that has happened—I don't know what happened in 2004 because it is not over yet, and so I don't know what will be the distribution of the tax burden, and that has I think been not well understood about the report. The second is that if you see the report, what we did was in the absence of data past 2001, we simply extrapolated at a very smooth rate of inflation, and a very smooth rate of income growth. So there was no recession, nothing that we actually experienced, and effective tax rates rise under current law because of inflation, real income growth and the tax law. And in order to peel out the part that is just inflation and income, we did the 2000 law. There with the law frozen the only reason for tax rates to change is due to the inflation and the income, and so the difference between those is the impact effect of the tax law. What we characterized in that report was that impact effect, prior to any behavioral responses, prior to any macroeconomic feedback, prior to any actual data on incomes and tax payments in looking at effective tax rates which are, in simple terms, the fraction of your private purchasing power which you delivered to the Federal Government in all the variety of tax sources.

So it is not an analysis of these particular tax cuts in the sense of what really happened, it is impact effects and the distribution, and it is a distributional study, and it does have—you may just want to flip to the next slide—different impacts across different parts of the income distribution. You can see that, and in particular, if we go to the next slide, a large, this is the top 1 percent, 5 percent and 10 percent, you can see that in fact you get declines in effective tax rates over the impact on effective tax rates in 2003, 2004, and going forward, and then jump back up at the end.

The one thing I would caution you about, if you go to the next slide, is 2004 is very special. The difference between the previous slide and that one is that we took out the net operating loss carry-backs and the bonus depreciation, the partial expensing that expires at the end of this year, those have a dramatic impact on the distributional consequences, and so you should be aware in using 2004, they are not typical years.

So that is a big digression. I think the report has been not well understood. It shows the impact effect. It differs by income distribution. The effective tax rate is dropped more at the upper end than at the bottom end, but they aren't facts yet.

Chairman NUSSLE. Before you proceed with your——

Mr. HOLTZ-EAKIN. And these are the numbers that we put up, the numbers you gave, were not the report. We can check and make sure they are right.

Chairman NUSSLE. Before you proceed with your 2 minutes, since we are on borrowed time, my time, my understanding is, looking at that chart then, that every taxpayer in every bracket faced lower taxes as long as they paid income taxes?

Mr. HOLTZ-EAKIN. Yes.

Chairman NUSSLE. That is what that chart says?

Mr. HOLTZ-EAKIN. Indeed, it is not even the act of writing the check. This is an economic measure of burden, so that, for example, if there is a sales tax and the store sends in the check for the sales tax, but they jack up the prices so that you pay for it, we assign that burden to you as the customer, not to the person who writes the check. So this is looking cross all parts of the income distribution, the burden they bear in the economic sense, not just the check writing sense.

Chairman NUSSLE. Thank you.

The gentleman from Illinois is recognized for his final 2 minutes.

Mr. EMANUEL. I will take only, I hope, only a minute of time.

One is, you were asked to do that report, because as every tax fight and debate we have, Treasury usually provides a distribution analysis and the Treasury Department did not. So let's underscore why you were asked to do that, which is unprecedented in history.

Second is, nothing I heard you say, said—you were asked to extrapolate, and you did, and you tried to make a guess. The top 1 percent will receive an average tax cut of $78,000 in 2004, more than 70 times the average tax cut received by the middle fifth, and those in the bottom fifth will receive an average tax cut of $230. I know you are guessing at 2004, it has not happened. But based on what we know happened in 2003 and what you are supposed to guess about what is happening in 2004, we know that that tax cut and the dollar terms it means to a family's budget were not equal in terms of what they got as a check. Correct?

Mr. HOLTZ-EAKIN. Unquestionably.

Mr. EMANUEL. Thank you very much.

Chairman NUSSLE. Mr. Portman.

Mr. PORTMAN. Thank you, Mr. Chairman.

Thank you, Dr. Holtz-Eakin, for being here again, and for your good analysis. I have looked at your OMB report and I really couldn't figure out what all the fuss was about. As I read your report, and I would like you to correct me if I am wrong, the top 10 percent of taxpayers in this country, the top 5 percent or the top 1 percent, after the Bush tax cuts were done with regard to Federal income taxes, and this is taking into account what is going to happen over the next 3 years, 6 years, 10 years, depending on the provision, not just 2004 with depreciation, but in every one of those categories, they are going to pay a higher percentage of the Federal taxes, not a lower percentage.

For instance, the top 10 percent pays roughly 67 percent of the taxes in 2000, and after the Bush tax cuts were in place, they pay approximately, based on your data that I saw, about 68 percent. And I saw the headline saying, you know, the rich are going to pay less based on the Bush tax cuts. Yes, the rich are going to get a bigger tax cut because they are paying more taxes, so Rahm's numbers, you know, in absolute terms, are correct, but as a percentage of who is paying the burden, I mean, the rich are going to pay even more thanks to the Bush tax cuts, because of the 10 percent bracket, because of the child credit, which is refundable, because of the marriage penalty the way it works, and I just—I know this is a political season and all that, but am I wrong about that, Dr. Holtz-Eakin?

Mr. HOLTZ-EAKIN. No. Those are the numbers on the income tax. There are two measures of burden in the report. One is the fraction of private incomes paid in taxes. The second is the fraction of the public taxes borne by each income class, and your characterization of the share of income taxes is right on the mark.

Mr. PORTMAN. So maybe we should ask a different question next time, and we can clarify this for our constituents. But we do have a very progressive tax structure in this country now, which makes it difficult, of course, to put together any kind of tax reform that does any kind of leveling because so many folks because of the benefits that President Bush has delivered in terms of the 10-percent bracket are not paying income taxes at all, about 3 or 4 million Americans, and others are paying less of a burden because of the refundability of the child credit and the marriage penalty. And, you know, in these tough economic times, that is appreciated. I tell you, 4.4 million Ohioans are getting a tax cut thanks to what President Bush did.

I have got some other data on that that I would be happy to talk about, but I just wanted to quickly go over your findings, which I really appreciate today your telling us that the deficit is now going to be estimated to be $56 billion less than you thought it was going to be for 2004. Why is that?

Mr. HOLTZ-EAKIN. That is largely on the receipt side. One piece of it is labeled technical. It was our estimate of how much of the 2003 tax cut would show up in lower withholding last year versus with refunds this year. With lower refunds being anticipated—not lower absolutely, but lower than we expected, so that looks like higher receipts. That is a one-time event not worth thinking too hard about. And the remainder is given the economy—we had anticipated a rapid recovery, as you know. Even given that, we saw more rapid growth in corporate receipts than we had anticipated.

Mr. PORTMAN. So we have revenue increases this year as compared to last year, but I thought we just heard from the other side of the aisle that we had these terrible tax cuts last year that have taken so much money out of the budget. We had tax cuts last year, and yet there is more revenue this year. How do you account for that? If it is less of a tax burden being paid and we have higher revenues this year, it reduces our deficit from what you thought it was going to be even in March, why is that?

Mr. HOLTZ-EAKIN. Well, there are two different metrics, one of which is last year versus this year, and you can cut taxes, and there is some offset from faster economic growth. And the second metric is this year relative to what we expected, and we certainly underestimated the degree to which we would get some back.

Mr. PORTMAN. That we would have the fastest economic growth in the last 20 years over the last four quarters, that 1.7 million new jobs have been created, you did not expect that kind of economic growth?

Mr. HOLTZ-EAKIN. We have actually received receipts above our economic forecasts, which even going back to March, we had anticipated a rapid cyclical recovery with payroll growth and with rapid GDP growth. And so on top of that, we have gotten a bit more, not dramatically more but a bit more than we anticipated.

Mr. PORTMAN. I appreciate your testimony today on the magic here, which is not all that complicated, which is keeping spending under control and growing the economy. And that is what we need to do again, as we did in the 1990s. We heard from Dr. Greenspan this morning that health care costs, as we have heard from you, are one of the real cost drivers in terms of the entitlement programs in particular. Some have suggested that the preventive health services and chronic disease management that is in the Medicare bill, for instance, could save hundreds of billions of dollars, as you know. Many of these provisions are worthwhile, like having a physical when you go now to join the Medicare program.

You all at CBO have consistently scored these provisions as costing money, not saving any money. For example, CBO estimated that provisions in the prescription drug bill would cost about—well, almost $3 billion, as I see it, over a 10-year period. Do you still stand by your original estimate that preventive health services and chronic disease management cost money rather than saving money?

Mr. HOLTZ-EAKIN. We have yet to find anything like consensus and consistent evidence in the peer-reviewed literature that there are cost savings associated with those programs. We know that there have been cases where individual companies or programs have claimed that they have achieved savings above the initial outlays necessary, but there is no consistent evidence of that fact. And we are agnostic until we find such evidence.

Mr. PORTMAN. So you stand by your original estimate.

Mr. HOLTZ-EAKIN. Yes.

Chairman NUSSLE. The Chair observes that we have three members who have been patiently waiting to ask questions. I will come back afterwards and continue the hearing if that is what you would like to do. I will try and recognize you in order, see if we can get this done before the vote. And you can manage your own time.

Mr. Baird.

Mr. BAIRD. Thank you, Mr. Chairman.

Earlier today, Chairman Greenspan testified that tax cuts, while there may be some revenue gain, the likely revenue gain will not exceed the revenue lost by tax cuts. is that generally your expectation for tax cuts?

Mr. HOLTZ-EAKIN. Yes.

Mr. BAIRD. So, in other words, further tax cuts is probably not a solution to balancing the budget in and of itself?

Mr. HOLTZ-EAKIN. One would not expect that if you cut taxes by $1 you would get $1 or more back.

Mr. BAIRD. Thank you.

I want to respond to my good friend from Florida's observation about what people have inherited and about not living in isolation. I could not agree more. I was just back in my district, and the head of a mental health clinic told me about 700 people who are going to lost their mental health benefits under Medicaid and were going to be without any therapy, medications, et cetera. So, indeed, the budget cuts we enact here do have impacts back home.

Another school principal in the spring told me of laying off 34 teachers' aides because of the Leave No Child Behind Act. Let's look for a moment at what was inherited by this administration. They inherited a $200 billion surplus, profoundly high U.S. standing globally. They inherited a host of other benefits. What have they left us? They have left us a $600 billion deficit when you include $150 billion borrowing of Social Security; 45 million Americans with no health insurance; 1 million more people in poverty, according to the latest census data; deficits in the transportation infrastructure which will not be addressed by the current administration's transportation plans; record trade imbalances; the lowest U.S. standing in international reputations, I think, in recent history; thousands and thousands of injured U.S. soldiers; record-high oil prices, energy prices that were driven up by Enron due to the inaction of this administration. So there are inheritances to be had, and I think part of what we are concerned about is the inheritance of the deficit.

I noticed on your chart, Mr. Holtz-Eakin, that the borrowing from Social Security looks to me to increase from $153 billion in 2004 to approximately $256 billion in 2010, if current trends apply. Is that a more or less accurate figure?

Mr. HOLTZ-EAKIN. We can check. I don't know.

Mr. BAIRD. I believe that to be the case, which I find interesting, because this President and this Congress pledged to put Social Security in a lockbox, and yet we are borrowing.

Now, if we do indeed borrow $256 billion, which is $100 [billion] or so more than we are borrowing today, it seems somewhat disingenuous to suggest, as the President has, that we are going to cut the deficit in half if part of the way we get there is by increasing our borrowing by over $100 billion more from Social Security. Any comments on that?

Mr. HOLTZ-EAKIN. I think it is best to view the unified budget, and as a result, those transfers within I think are less meaningful in an economic sense than the net change in the overall position.

Mr. BAIRD. I have heard you say that before and heard others say it. However, we did promise to put it in a lockbox, so the President apparently did not buy that when he came into office and has apparently flip-flopped, if I may use that popular phrase, on his perspective there. And yet who will pay that Social Security trust fund back down the road?

Mr. HOLTZ-EAKIN. In the end, the economy is the source of finance for all programs, Social Security and otherwise, and in our current projections the key moment for Social Security will be 2019, the point at which payroll taxes will no longer cover current benefit payments. And at that point, it will be necessary for one of three things to happen: either those resources will come from lower spending elsewhere in the budget; they will come from higher taxes; or they will come from additional borrowing. But it will be the case that on a cash flow basis, Social Security will need to turn to the rest of the budget for those resources.

Mr. BAIRD. My take would be essentially our children will—or future workers, which I am assuming are our kids.

Mr. HOLTZ-EAKIN. It depends on the future course of policy, as you know. If there are changes in the program, that could be ameliorated.

Mr. BAIRD. We heard from Tom Scully—or we heard from GAO today that Tom Scully, the former head of CMS, should probably not even receive his salary for having suppressed factual information from one of his employees. That factual information was that the Medicare bill would cost not $400 billion but $530 billion just for the next 10 years. Do you know what the projections are over the subsequent 10 years?

Mr. HOLTZ-EAKIN. With perhaps a little undue pride, I would say that we estimated the cost of the bill, we believe it was $395 billion, and there has been nothing that has transpired since that would cause us to change our estimate. It is built into our Medicare baseline. It will become more expensive each year due to additional beneficiaries and rising health care costs. One could imagine over the second 10 years that benefit is something on the order of $1.5 trillion.

Mr. BAIRD. That is $1.5 trillion for that benefit alone?

Mr. HOLTZ-EAKIN. Yes.

Mr. BAIRD. I thank the gentleman and yield back. Thank you.

Chairman NUSSLE. Does the gentleman from Virginia have anything he would like to say before the end of the hearing?

Mr. SCOTT. No. We appreciate the gentleman coming.

Chairman NUSSLE. It appears, Director, there are members who are very interested in continuing the conversation. I know that they have the opportunity to do so privately with you, over the phone or in person. And they have agreed to not come back after the series of votes. So I appreciate them and their forbearance, and I appreciate your being here today and for the excellent testimony and for the good work of the Congressional Budget Office.

If there is nothing further to come before the committee, we will stand adjourned.

Mr. HOLTZ-EAKIN. Thank you.
Chairman NUSSLE. Thank you.
[Whereupon, at 3:52 p.m., the committee was adjourned.]

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